

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON MSINGA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Msinga Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 25.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No.12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Msinga Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended are prepared in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Irregular expenditure

9. As disclosed in note 36, to the financial statements, irregular expenditure to the amount of R15,033 million was incurred, as a proper tender process had not been followed.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

11. The supplementary information set out on pages 42 to 45 and 48 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal Supply Chain Management Regulations – GNR 868 of 30 May 2005 (MSCMR)) and financial management (internal control).

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages 49 to 58, are reported below:

Non-compliance with applicable legislation

Lack of policies and procedures to improve performance

14. The performance management system does not specifically provide for policies and procedures to take steps to improve performance with regard to those development priorities and objectives where performance targets were not met, as required by section 41(1) (d) of the MSA.

Internal auditing of performance measurements

15. The Msinga Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Usefulness of reported performance information

16. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents.
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

17. The integrated development plan objective to empower people of Msinga Municipality with skills were not:

- Specific in clearly identifying the nature and required level of performance; and
- Measurable in identifying the required performance and specific targets.

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

18. The accuracy and completeness of the amounts recorded for the completed roads could not be relied on due to following unexplained differences totalling R1,580 million between the amounts recorded on the physical progress and financial report (PPFR) as at 30 June 2010 and the amounts recorded in the annual performance report (APR):

- *Simanyama access road* – PPFR (R3,776 million) and APR (R2,690 million)
- *Bhodlendlini access road* – PPFR (R3,150 million) and APR (R 3,402 million)
- *Ngilandi access road* – PPFR (R 1,927 million) and APR (R2,169 million)

Compliance with laws and regulations

Non-adherence to legislation

Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

The audit committee was not properly established or not functioning correctly

19. The audit committee was did not operate effectively throughout the year, and thus did not fulfill its mandate, as required by section 166 of the MFMA.

Municipal Supply Chain Management Regulations – GNR 868 of 30 May 2005 (MSCMR)

Expenditure was incurred in contavention of applicable legislation resulting in irregular expenditure

20. Regulations 20(e) and (f) of the MSCMR was contravened, in that, bids were not evaluated and awarded fairly, resulting in irregular expenditure being incurred.

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

Legislative requirement for declarations of interest not adhered to

21. Contrary, to section 7(f) of schedule 1 and section 5A (1) (f) of schedule 2, declarations of business interest did not fully disclose interests in entities with, which the municipality transacted.

INTERNAL CONTROL

22. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations, (MFMA, MSA and MSCMR), but not for the purpose of expressing an opinion on the effectiveness of internal control.
23. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives and findings on compliance with laws and regulations.

Leadership

24. The accounting officer did not exercise oversight responsibility over performance management and compliance with laws and regulations. In this regard, decisive actions were not taken to ensure that irregular spending was disclosed in the financial statements and that reported performance adequately supported.

Financial and performance management

25. Records management did not operate at desired levels due to time delays that were experienced in providing essential documents. Moreover, the financial and performance management information was not reviewed for completeness and accuracy, in that, material amendments in the financial statements emanated from the auditing process.

Governance

26. The audit committee did not fulfil its mandated role nor did the internal audit function perform effectively to ensure that ongoing monitoring, as well as preventive, detective and corrective measures was adequate to mitigate and respond to the risk of material misstatement and fraud.

Auditor-General

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence